



Champion Advisors LLC
Wealth Management

January 2023

Dear Client,

It's hard to believe we began 2022 with confidence in the stock markets that had rebounded from the lows created by the pandemic of 2020! During the first quarter of the year, however, that optimistic outlook shifted - the past twelve months have been grueling and incredibly volatile, to say the least. It's a fact that equity and fixed income have not been down in the same year in over four decades. The good news is that equity markets responded 92% of the time with positive returns in the year following a down 12-month period. This provides the foundation for having a positive outlook going forward for higher expected returns.

We hope the two informational articles included herein will give you some understanding as to how this affects your portfolio with Champion Advisors. It's our intention to equip you with information that might answer any questions you may have about the current state of the capital markets. We will continue to take a long-term view of your investment portfolio knowing the markets have rewarded those with the discipline to use this approach.

Finally, we believe that after many years of being in a low interest environment, things are finally normalizing, and there is an opportunity to lower the risk of your portfolio going forward. We will continue to maintain global diversification within your equities and look for higher bond yields that will follow the current higher interest rates. It is possible this may alter the stock/bond ratio of your portfolio.

Please call us if you would like to discuss any of this information or to schedule a meeting to review your portfolio!

Sincerely,

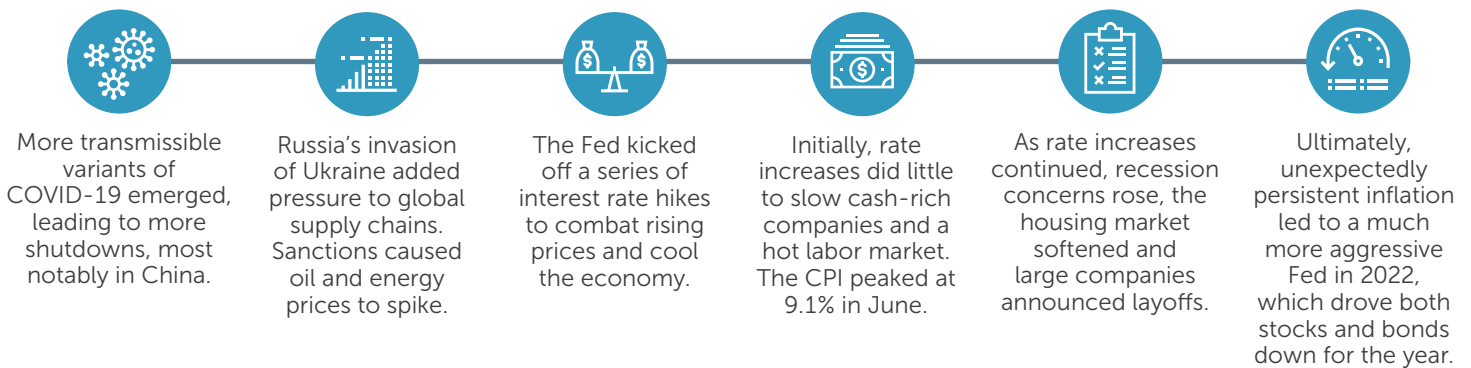
Thomas E. Tucker
Owner & CEO

Quarterly Insights

2022 In Review: Investing Through Tough Times

By Daniel Campbell, CFA

Despite a hopeful start, 2022 turned out to be a tumultuous year for financial markets. Last January, the Federal Reserve's benchmark rate was near zero, mortgages were just over 3% and the 10-year Treasury was yielding a mere 1.5%. Stock markets had returned from their 2020 lows, and although the pandemic hadn't ended, investors felt confident in the year ahead. But then came a new set of risks:



Although the U.S. stock market hit bear market territory in 2022 – a decline of 20% or more from the peak – and the U.S. economy shows signs that we are in a recession, the chart below helps demonstrate why staying invested through tough times is still likely the better path forward for investors. Markets are inherently forward-looking, meaning stocks tend to turn positive long before we officially move out of a recession – a great opportunity for long-term investors. And with the pace of interest rate hikes and inflation expected to moderate, long-term investors have plenty of reasons to be optimistic as we begin a new year.

U.S. Stocks Have Enjoyed Positive Returns in the Second Half of Recessions

As this chart shows, even knowing that we're in a recession or when a recession will end won't necessarily help you achieve better stock returns. History shows us that stock markets tend to decline in the first half of a recession, but they post some of the best returns during the second half of the recession.



Data from 1973 – 2021. The market is represented by the CRSP U.S. Total Market Index. Source: Avantis Investors. The average number of months over the period from Peak to 1/2-Trough and 1/2-Trough to Trough is 5.4, while the number of months over the period from Trough to 1/2-Peak and 1/2-Peak to Peak is 35.9. Past performance is no guarantee of future results.

For informational and educational purposes only. The opinions expressed by featured authors are their own and may not accurately reflect those of Buckingham Wealth Partners®. This article is for general information only and is not intended to serve as specific financial, accounting or tax advice. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio nor do indices represent results of actual trading. Information from sources deemed reliable, but its accuracy cannot be guaranteed. R-22-4764

PERSPECTIVES

Market Review 2022: After a Down Year, Looking to the Past as a Guide

Jan 05, 2023

KEY TAKEAWAYS

- Stocks had their worst year since 2008, and bond prices also fell as inflation reached a four-decade high.
- Value stocks served as bright spot, outperforming growth by the largest margin since 2000.
- Markets may have been down, but history suggests that's no time to panic.

It was an up-and-down year for markets—in the end, one with more *down* than *up*. The world gave financial markets a lot to process. The coronavirus pandemic eased but remained a global concern, as did the supply-chain issues that accompanied its arrival. Inflation reached a 40-year high in the US,¹ and the Federal Reserve pursued a series of interest rate increases to combat rising prices, actions similar to those taken by other nations' central banks. Russia's invasion of Ukraine in February brought uncertainty about political stability and energy prices, among other worries. A midterm US election shifted more power to Republicans but left Democrats in a stronger position than some had expected. Against this backdrop, equity and bond markets fell for the year, despite several rallies.

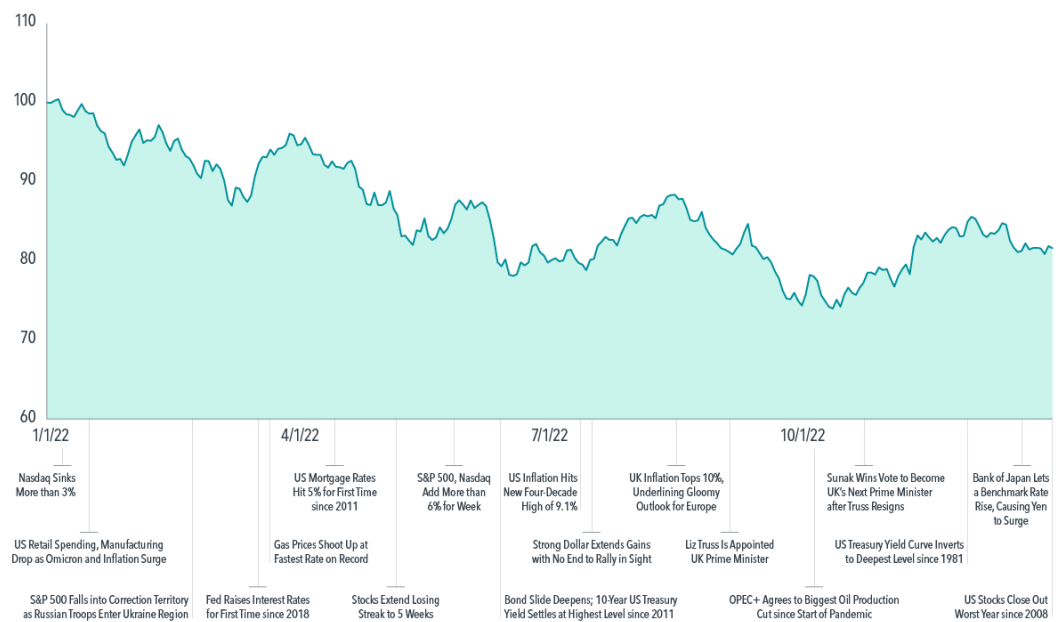
Inflation was front and center all year long. The US experienced the highest price increases in four decades, and the Fed lifted rates in a bid to reduce inflation from above 9% to the long-term target of 2%. Price increases showed signs of peaking late in the year, with inflation easing to 7.1% in the US in November, although a slow retreat from multidecade highs could keep it a concern for central banks well into 2023. Supply-chain issues related to the pandemic and to Russia's war in Ukraine also eased, and food and fuel costs declined.

The midterm elections in the US left a split Congress, with Democrats narrowly controlling the Senate and Republicans taking back the House, which could affect the legislative agenda and items like tax increases and spending packages. But investors may be wise to [avoid focusing much on the outcome of elections](#), as markets [have](#)

tended to reward those who stayed invested regardless of the outcome. And elections are just one of many factors influencing returns.

The S&P 500 Index² fell to a two-year low in September; at one point, the index had given back 50% of its post-pandemic rally. After the sharp drop in the first half of the year, led by technology stocks, the stock market rebounded somewhat. That came as the political situation became clearer and with investors pricing in prospects of smaller Fed rate hikes going forward as inflation cooled. Despite the rally, the S&P 500 fell 18.1% for the year, its worst annual return since the financial crisis in 2008. Likewise, global stock markets ended with their largest declines since the financial crisis. Global equities, as measured by the MSCI All Country World Index,³ fell 18.4% (see **Exhibit 1**). Developed international stocks, as represented by the MSCI World ex USA Index, lost 14.3%, while emerging markets declined even further, with the MSCI Emerging Markets Index down 20.1%.

Exhibit 1
Late Rebound Not Enough for Markets



Past performance is no guarantee of future results.

In USD. MSCI All Country World Index, net dividends. MSCI data © MSCI 2023, all rights reserved. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. Headlines are sourced from various publicly available news outlets and are provided for context, not to explain the market's behavior.

While markets were down as a whole, value stocks were a bright spot for investors. Value shares have prices that are low relative to a measure like a company's book value, and these stocks outperformed pricier growth stocks by the largest margin since 2000, at the end of the initial dot-com craze: The MSCI All Country World Value Index fell 7.5% vs. a 28.6% decline for the MSCI All Country World Growth Index. That recent turnaround has

rewarded investors who remained disciplined following a three-year slump for value, which ended in June 2020. Since then, value has beaten growth by 10.1 percentage points, annualized. Small capitalization stocks held their own with large cap stocks. The MSCI All Country World Small Cap Index declined 18.7% vs. the 18.4% fall for the MSCI All Country World Index. Historically, small cap stocks have outperformed large cap stocks.⁴

SILVER LININGS FOR BATTERED BONDS

Some may view fixed income as a safe haven for investors, expecting bonds to rise in value when stocks fall. However, this was not the case in 2022. The tandem decline for equities and fixed income was relatively rare. Benchmark US Treasuries posted their worst annual returns in decades, with 10-year Treasury notes losing 16.3%,⁵ a second straight annual loss. The last time investors saw back-to-back losses was in the late 1950s. The yield curve, which charts the difference in yield between long-dated and short-dated bonds, was inverted at year's end. The 10-year yield ended just below 3.9%, while the 2-year yield was just above 4.4%,⁶ reflecting the higher short-term rates.

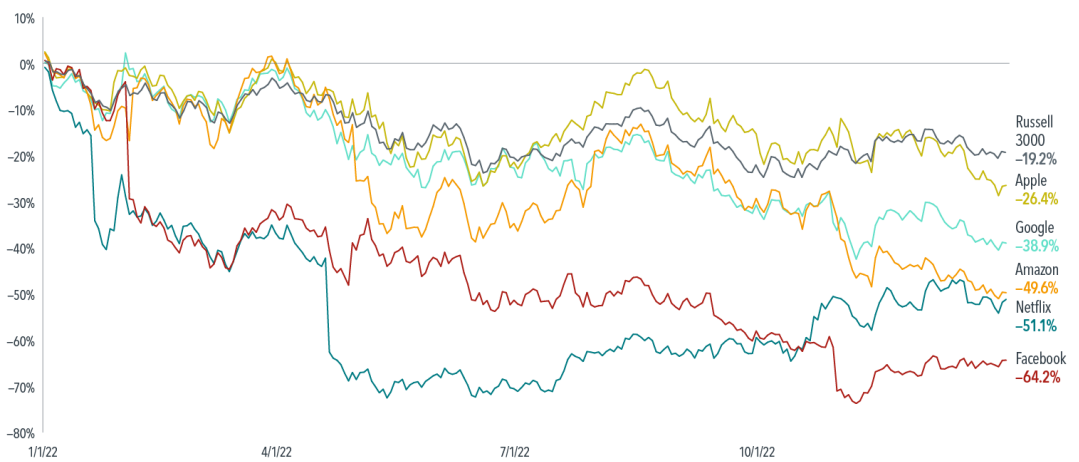
Higher interest rates can bring short-term pain as bond prices fall, but they can be beneficial in the long term and present new opportunities for fixed income investors. Some investors may be hesitant to take advantage of higher yields, perhaps because of concerns about the potential for even higher yields to come. They may even consider reducing their bond exposure. But if yields keep rising, investors seeking higher expected returns may still be better off maintaining the duration of their fixed income allocation. Rising yields affect fixed income portfolios in several ways. Longer-duration portfolios may experience larger immediate declines in value relative to shorter-duration portfolios as yields increase. But higher yields may lead to higher expected returns. Similarly, investors who have seen equity prices fall may be tempted to sell. But lower stock prices can be indicative of higher expected returns.⁷

A RESET FOR CRYPTO AND FAANG STOCKS

If the market decline of 2022 taught investors anything, it's that what goes up might also come down. Some of the most hyped investments of the past two years did just that. Cryptocurrencies⁸ and FAANG stocks⁹ were all hit hard, with bitcoin falling below \$17,000, about 75% lower than its high of nearly \$68,000 in November 2021.¹⁰ As investors have learned by now, cryptocurrencies can be extremely volatile. From a distance, bitcoin might appear to have enjoyed a steady climb through much of its existence. There were, however, major slumps: On three occasions since 2017, bitcoin has fallen by more than 50%, including the decline that extended into 2022.

The FAANGs also saw notable declines in 2022 (see **Exhibit 2**). The group of tech stocks lost a combined \$3.2 trillion in market value—one might say the market was de-FAANGed. Facebook parent Meta Platforms, Amazon, Apple, Netflix, and Google parent Alphabet all lagged the broad US market, with Facebook and Netflix suffering particularly sharp losses. The group collectively underperformed the Russell 3000 Index¹¹ by more than 20 percentage points.¹² The slump came on the heels of a stellar decade—the FAANGs returned 28% per year from 2012 to 2021.

Exhibit 2 Tech Giants De- FAANGed



Past performance is no guarantee of future results.

In USD. Cumulative returns, January 1, 2022–December 31, 2022. FAANG stock data source: Refinitiv. Facebook and Google now known as Meta and Alphabet, respectively. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.

That reversal is a reminder that investors should be cautious about assuming past returns will continue. Even if a company with a track record of strong stock returns remains broadly successful, that may not translate to spectacular future returns. Excellence may now be what investors are counting on and not the basis for above-market returns. This point is borne out by looking back at stocks as they grew to become among the top 10 largest by market cap. On average, **their performance lagged the performance of the broader market** within a few years of entering the top 10.

TAKING A BALANCED VIEW OF THE 60/40 PORTFOLIO

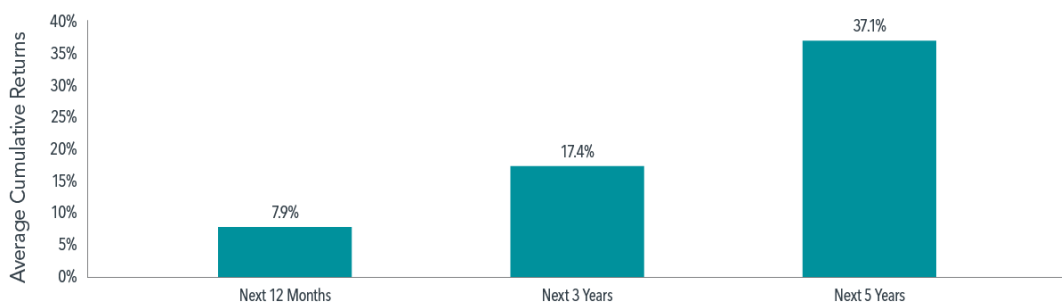
With both fixed income and equities declining on the year, the traditional 60% stock/40% bond portfolio had a hard time offering much support in either asset category, leading some to question the utility of this approach. Although 2022 was the worst year in history for many bond indices, the performance of the 60/40 portfolio¹³ didn't crack the top five peak-to-trough drawdowns in close to a century's worth of data. The drawdown that reached 19% at its nadir was painful, but it's only two-thirds of the 30% peak-to-trough drawdown investors¹⁴ endured through a particularly difficult period from 2007–2009. And the portfolio saw some recovery late in the year, ending down 14% for 2022.

During rocky markets, it is especially important for investors to focus not solely on where returns have been but also on where they could be going. Looking at the **performance of a 60/40 portfolio** following a decline of 10% or more since 1926, returns on average have been strong in the subsequent one-, three-, and five-year periods (see **Exhibit 3**).

Exhibit 3

A Case for Optimism

Performance of a 60/40 portfolio (60% S&P 500 Index/40% 5-year US Treasury notes) following a decline of 10% or more: January 1926—December 2022



Past performance is not a guarantee of future results.

In USD. Drawdowns include all periods where the 60/40 portfolio declined by 10% or more from the prior peak. Peaks are defined as months where the 60/40 portfolio's cumulative return exceeds all prior monthly observations. Returns are calculated for the one-, three-, and five-year look-ahead periods beginning the month after the 10% decline threshold is exceeded. The bar chart shows the average cumulative returns for the one-, three-, and five-year periods post-decline. There are 10, nine, and nine observations for the one-, three-, and five-year look-ahead periods, respectively. Source: Morningstar Direct as of December 31, 2022. Five-year US Treasury notes data provided by Morningstar. S&P data © 2023 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.

STICKING WITH A PLAN

There's no way to know where markets may be headed, and it can be hard to imagine an upturn when prices have fallen or when there is consternation about the direction of the economy. But history argues for persistence and patience. With the yield curve inverted, some economists are saying a recession is inevitable, if one hasn't already begun. **But history shows that across the two years that follow a recession's onset, equities have a track record of positive performance, on average.** This is an important lesson on the forward-looking nature of markets, highlighting how current prices reflect market participants' collective expectations for the future. **Likewise, US equity returns following sharp declines have, on average, been positive over one-year, three-year, and five-year periods.**

A look back at recent history makes a case for sticking with a plan. Handsome rebounds after steep declines can help put investors in position to capture the long-term benefits the markets offer. Those who sold their stockholdings during the dot-com crash in the early 2000s wouldn't have been in position to enjoy the equity recovery that eventually followed. Similarly, those abandoning a plan early in the 2008–09 financial crisis, or in March of 2020 as COVID fears spread, wouldn't have benefited from the subsequent rallies. As we look at prices that in some cases are well off their highs, it's helpful to keep history in mind entering 2023. That's the definition of thinking of investing for the long term.